

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Construction

UP

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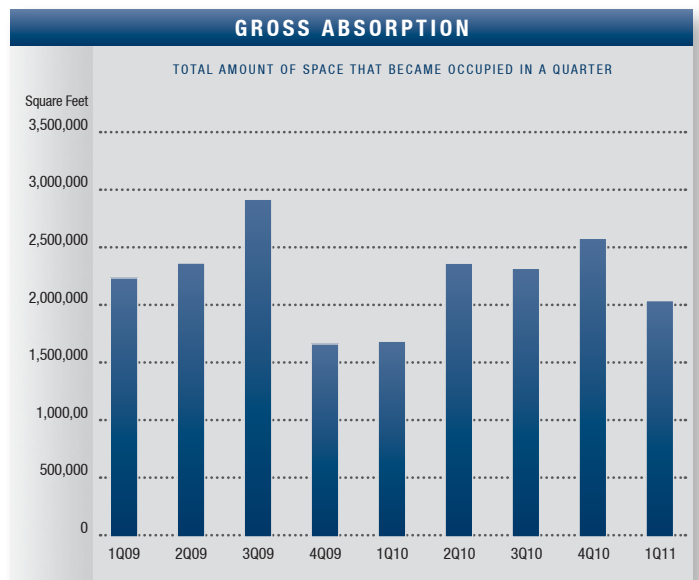
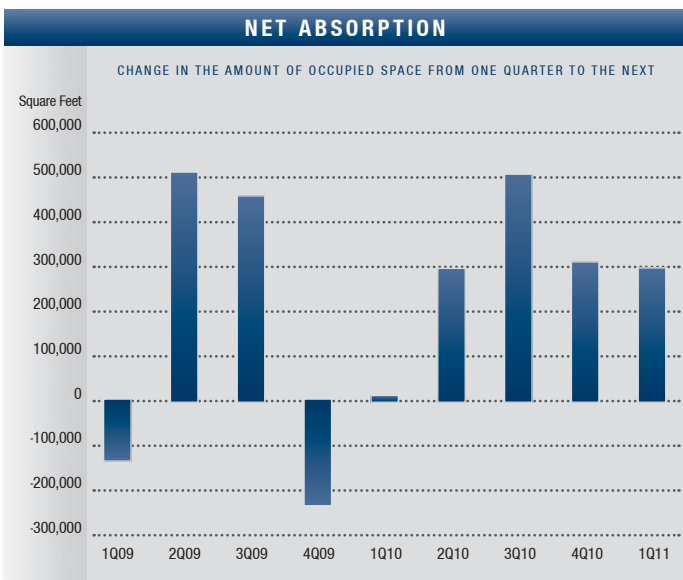
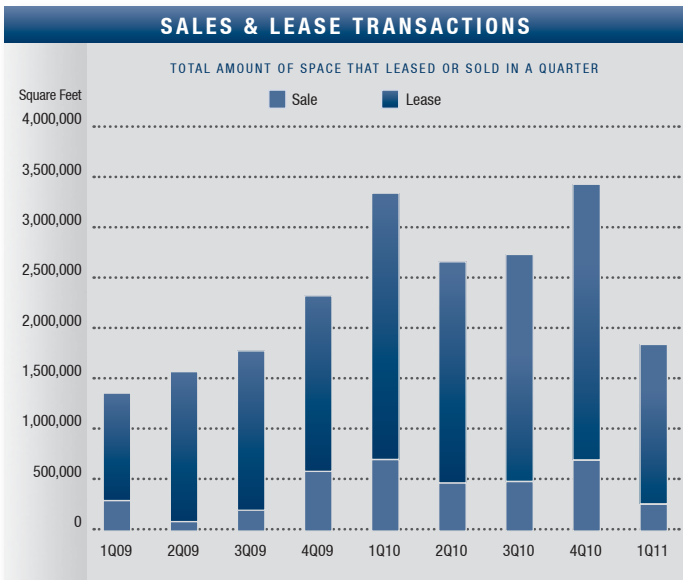
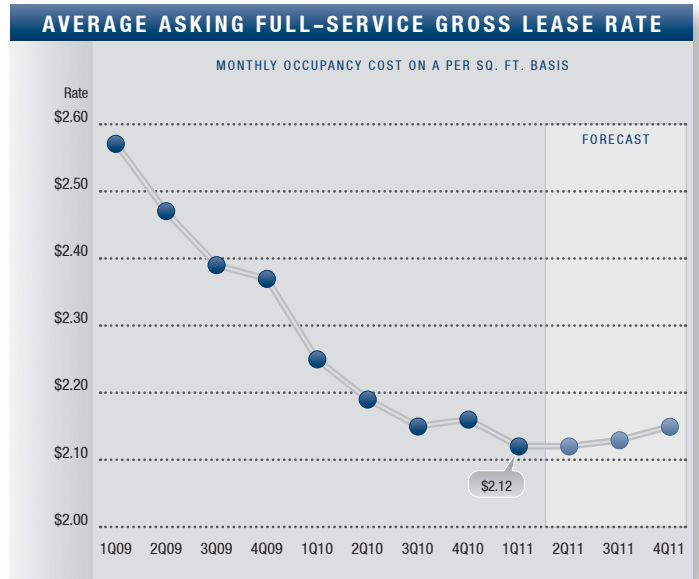
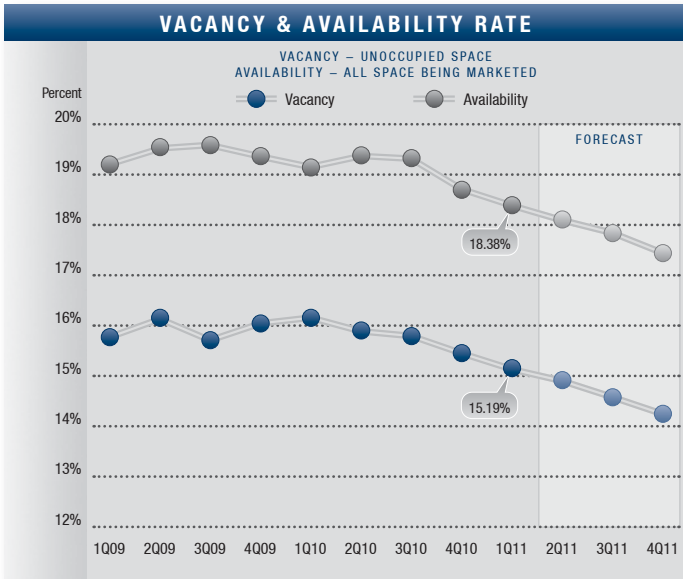
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### Market Highlights

- Encouraging Numbers** - The San Diego County office market conveyed more promise of stabilization in the first quarter of 2011. Both vacancy and availability were down from the previous quarter, and net absorption displayed positive numbers for five consecutive quarters. Demand, although still weak by historical standards, picked up, with 2010 marking the beginning of a renewed interest in sales transactions. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Construction** - Over the past five years, over 8 million square feet of new office construction was completed in San Diego County. The record year for new development was 2001, when 3.7 million square feet of new space was added. Total space under construction checked in at 128,000 square feet in the first quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 15.19%, lower than the previous quarter's figure of 15.47% and lower than 2010's first quarter rate of 16.18%. The Central Suburban market posted the lowest rate in the county, at 10.81%.
- Availability** - Direct/sublease space being marketed was 18.38% in the beginning of 2011, a decrease of 3.97% when compared to the 19.14% availability rate of the first quarter of 2010.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.12 in the first quarter – a decrease of 5.78% from 2010's first quarter rate of \$2.25 but only four cents lower than the previous quarter's rate. The record high rate of \$2.76 was established in the first and second quarters of 2008. The highest rates for the county were in the North City submarket, where they averaged \$2.40 FSG. Class A rates for the county averaged \$2.40 FSG.
- Absorption** - The San Diego office market posted 295,672 square feet of positive net absorption in the first quarter of 2011, giving the market a total of 1.4 million square feet of positive absorption over the last five quarters.
- Transaction Activity** - Leasing activity checked in at 1.6 million square feet in 2011's first quarter, a decrease from the 2010's first quarter total of 2.6 million square feet. Sales activity also showed a year-over-year decrease, posting 240,000 square feet of activity in 2011 compared to 700,000 square feet in the first quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in San Diego County was 10.1% in February 2011, down from a revised 10.4% in January 2011 and below the year-ago estimate of 10.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,100 payroll jobs from February 2010 to February 2011 – 10,700 in professional and business services and 3,800 in education and health services. However, construction posted the greatest year-over-year decline – a loss of 1,600 jobs. Between January 2011 and February 2011 San Diego County employment increased by 4,700 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue in order to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs in 2011. As unemployment rates drop and consumer confidence stabilizes, the office market will regain equilibrium.

### OFFICE MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	15.19%	15.47%	16.18%	(6.12%)
Availability Rate	18.38%	18.73%	19.14%	(3.97%)
Average Asking Lease Rate	\$2.12	\$2.16	\$2.25	(5.78%)
Sale & Lease Transactions	1,821,440	3,412,599	3,337,667	(45.43%)
Gross Absorption	2,018,212	2,572,567	1,674,149	20.55%
Net Absorption	295,672	311,958	12,501	N/A



	INVENTORY			VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>Central</b>													
Downtown	142	12,898,451	0	40,000	2,290,163	17.76%	2,745,818	21.29%	\$2.19	(109,379)	(109,379)	217,626	217,626
<b>Central Total</b>	<b>142</b>	<b>12,898,451</b>	<b>0</b>	<b>40,000</b>	<b>2,290,163</b>	<b>17.76%</b>	<b>2,745,818</b>	<b>21.29%</b>	<b>\$2.23</b>	<b>(109,379)</b>	<b>(109,379)</b>	<b>217,626</b>	<b>217,626</b>
<b>Central Suburban</b>													
City Heights/University	28	949,913	0	0	60,964	6.42%	86,108	9.06%	\$2.09	(5,082)	(5,082)	3,332	3,332
Coronado	6	124,741	0	0	3,422	2.74%	3,422	2.74%	\$0.00	1,000	1,000	1,000	1,000
Kearny Mesa	234	10,235,174	0	193,000	1,075,959	10.51%	1,359,214	13.28%	\$1.71	25,658	25,658	150,556	150,556
Mission Gorge	25	597,627	0	0	59,023	9.88%	57,945	9.70%	\$1.27	(12,204)	(12,204)	1,380	1,380
Mission Valley	125	6,973,181	0	55,000	1,104,257	15.84%	1,351,025	19.37%	\$2.07	53,478	53,478	170,335	170,335
Old Town/Point Loma	79	2,412,908	0	0	83,395	3.46%	214,058	8.87%	\$1.56	10,321	10,321	48,345	48,345
Park East	9	167,584	0	0	11,937	7.12%	14,062	8.39%	\$2.10	(1,522)	(1,522)	0	0
Rose Canyon/Morena	57	1,245,660	0	11,160	141,755	11.38%	140,286	11.26%	\$1.84	(4,994)	(4,994)	12,197	12,197
Uptown/Hillcrest	111	2,788,430	0	72,514	216,364	7.76%	307,468	11.03%	\$2.08	10,865	10,865	43,718	43,718
<b>Central Suburban Total</b>	<b>674</b>	<b>25,495,218</b>	<b>0</b>	<b>331,674</b>	<b>2,757,076</b>	<b>10.81%</b>	<b>3,533,588</b>	<b>13.86%</b>	<b>\$1.85</b>	<b>77,520</b>	<b>77,520</b>	<b>430,863</b>	<b>430,863</b>
<b>Highway 78 Corridor</b>													
Oceanside	53	1,099,204	0	438,789	243,291	22.13%	219,071	19.93%	\$1.52	(4,004)	(4,004)	8,145	8,145
San Marcos	35	1,217,725	0	158,000	311,970	25.62%	347,181	28.51%	\$2.55	(20,168)	(20,168)	38,035	38,035
Vista	48	1,144,927	0	188,350	160,460	14.01%	182,494	15.94%	\$1.43	8,941	8,941	22,771	22,771
<b>Highway 78 Corridor Total</b>	<b>136</b>	<b>3,461,856</b>	<b>0</b>	<b>785,139</b>	<b>715,721</b>	<b>20.67%</b>	<b>748,746</b>	<b>21.63%</b>	<b>\$1.55</b>	<b>(15,231)</b>	<b>(15,231)</b>	<b>68,951</b>	<b>68,951</b>
<b>I-15 Corridor</b>													
Escondido	74	1,574,508	0	43,107	293,350	18.63%	325,618	20.68%	\$1.67	31,628	31,628	47,056	47,056
Poway	27	1,317,011	0	790,570	89,972	6.83%	142,354	10.81%	\$1.86	(14,642)	(14,642)	5,316	5,316
Rancho Bernardo	103	6,276,182	83,000	1,177,073	742,130	11.82%	803,521	12.80%	\$1.75	76,280	76,280	187,352	187,352
Scripps Ranch	51	2,721,667	0	240,000	1,025,312	37.67%	1,033,701	37.98%	\$2.12	20,763	20,763	37,014	37,014
<b>I-15 Corridor Total</b>	<b>255</b>	<b>11,889,368</b>	<b>83,000</b>	<b>2,250,750</b>	<b>2,150,764</b>	<b>18.09%</b>	<b>2,305,194</b>	<b>19.39%</b>	<b>\$1.88</b>	<b>114,029</b>	<b>114,029</b>	<b>276,738</b>	<b>276,738</b>
<b>North City</b>													
Governor Park	19	852,202	0	0	195,626	22.96%	178,759	20.98%	\$2.00	(1,431)	(1,431)	19,211	19,211
La Jolla	61	1,774,156	0	0	192,307	10.84%	270,905	15.27%	\$2.90	(29,559)	(29,559)	23,026	23,026
Miramar	36	1,645,472	0	0	182,328	11.08%	225,385	13.70%	\$1.98	(2,044)	(2,044)	21,952	21,952
Sorrento Mesa	117	8,328,259	0	1,694,531	1,120,379	13.45%	1,336,719	16.05%	\$2.19	156,264	156,264	324,906	324,906
Sorrento Valley	25	778,804	0	0	79,542	10.21%	88,341	11.34%	\$1.29	1,800	1,800	10,759	10,759
Torrey Pines	48	3,565,668	0	0	206,939	5.80%	484,198	13.58%	\$3.75	34,532	34,532	34,534	34,534
UTC Center	84	7,641,922	0	298,400	1,430,437	18.72%	2,047,089	26.79%	\$2.42	(107,867)	(107,867)	109,995	109,995
<b>North City Total</b>	<b>390</b>	<b>24,586,483</b>	<b>0</b>	<b>1,992,931</b>	<b>3,407,558</b>	<b>13.86%</b>	<b>4,631,396</b>	<b>18.84%</b>	<b>\$2.40</b>	<b>51,695</b>	<b>51,695</b>	<b>544,383</b>	<b>544,383</b>
<b>North County</b>													
Carlsbad	154	6,201,645	0	792,200	1,533,041	24.72%	1,667,445	26.89%	\$2.37	65,593	65,593	166,162	166,162
Del Mar Heights/Carmel Valley	67	4,397,167	0	91,256	797,534	18.14%	1,025,078	23.31%	\$2.43	106,055	106,055	172,212	172,212
North Beach Cities	121	2,627,331	0	72,900	265,075	10.09%	336,625	12.81%	\$2.30	(5,941)	(5,941)	55,252	55,252
<b>North County Total</b>	<b>342</b>	<b>13,226,143</b>	<b>0</b>	<b>956,356</b>	<b>2,595,650</b>	<b>19.63%</b>	<b>3,029,148</b>	<b>22.90%</b>	<b>\$2.39</b>	<b>165,707</b>	<b>165,707</b>	<b>393,626</b>	<b>393,626</b>
<b>South/Southeast Corridor</b>													
Chula Vista	81	2,428,461	45,000	312,955	406,089	16.72%	420,823	17.33%	\$1.47	2,979	2,979	44,606	44,606
East County	155	3,438,166	0	546,200	295,060	8.58%	338,234	9.84%	\$1.09	(2,968)	(2,968)	28,692	28,692
National City	15	516,722	0	0	222,381	43.04%	232,905	45.07%	\$2.02	5,418	5,418	6,468	6,468
Otay Mesa	10	241,214	0	0	45,824	19.00%	45,824	19.00%	\$0.00	0	0	357	357
Southeast San Diego	16	577,042	0	0	115,926	20.09%	116,632	20.21%	\$0.00	5,902	5,902	5,902	5,902
<b>South/Southeast Total</b>	<b>277</b>	<b>7,201,605</b>	<b>45,000</b>	<b>859,155</b>	<b>1,085,280</b>	<b>15.07%</b>	<b>1,154,418</b>	<b>16.03%</b>	<b>\$1.13</b>	<b>11,331</b>	<b>11,331</b>	<b>86,025</b>	<b>86,025</b>
Class A	254	31,346,775	83,000	4,166,174	4,937,239	15.75%	5,740,529	18.31%	\$2.40	201,983	201,983	649,044	649,044
Class B	1,181	49,664,674	45,000	3,049,831	8,302,518	16.72%	10,310,250	20.76%	\$1.97	225,096	225,096	1,130,605	1,130,605
Class C	781	17,747,675	0	0	1,762,455	9.93%	2,097,529	11.82%	\$1.52	(131,407)	(131,407)	238,563	238,563
<b>San Diego County Total</b>	<b>2,216</b>	<b>98,759,124</b>	<b>128,000</b>	<b>7,216,005</b>	<b>15,002,212</b>	<b>15.19%</b>	<b>18,148,308</b>	<b>18.38%</b>	<b>\$2.12</b>	<b>295,672</b>	<b>295,672</b>	<b>2,018,212</b>	<b>2,018,212</b>

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Price Per SF	Buyer	Seller
10201 Wateridge Circle – 3 Properties	Sorrento Mesa	A	268,957	\$187.76	10201 Wateridge Office Plaza, LLC	Veralliance Properties, Inc.
9740 Scranton Road – 2 Properties	Sorrento Mesa	B	116,825	\$157.50	Cruzan–Monroe	Hackman Capital Partners, LLC
11149 N. Torrey Pines Road	Torrey Pines	B	40,127	\$401.20	HCP, Inc.	Nexus Properties, Inc.
484 Prospect Street	La Jolla	B	14,800	\$513.51	Manchester Financial Group	Comerica Bank
10150 Meanley Drive – Building C	Scripps Ranch	B	60,850	\$108.46	PacVentures, Inc.	Cruzan–Monroe
4575 Eastgate Mall	UTC	C	15,000	\$294.16	HCP, Inc.	Nexus Properties, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9645 Scranton Road – Renewal/Expansion	Sorrento Mesa	B	96,000	Feb–11	Novatel Wireless	MPG Office Trust
3111 Camino Del Rio N.	Mission Valley	A	32,503	Mar–11	Encore Capital Group	TIAA–CREF
7676 Hazard Center	Mission Valley	A	32,050	Jan–11	Kimball, Tirey & St. John, LLP	7510 Hazard Center, LLC
10150 Meanley Drive	Scripps Ranch	B	30,425	Feb–11	Paychecks International	PacVentures, Inc.
2231 Rutherford Road	Carlsbad	B	28,458	Feb–11	NTN Buzztime, Inc.	Kilroy Realty Corporation
525 B Street	Downtown	B	24,599	Jan–11	Social Security Administration	Hines

Product Type

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

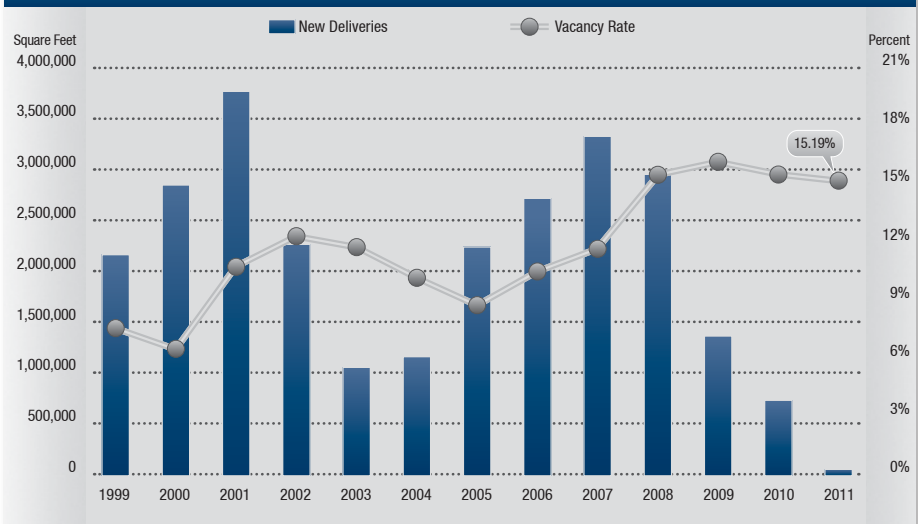
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL OFFICE NEW DELIVERIES VS. VACANCY RATE



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